

# *Office of the State Auditor*

## *Division of State Audit*

### Department of Human Services Bismarck, North Dakota

Audit Report for the  
Biennium Ended June 30, 2007  
Client Code 325

*Robert R. Peterson*  
*State Auditor*



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## *Transmittal Letter*

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January 11, 2008

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Carol Olson, Executive Director, Department of Human Services

We are pleased to submit this audit of the Department of Human Services for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Kevin Scherbenske, CPA. Cindi Pedersen, CPA, was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor at (701) 328-4743. We wish to express our appreciation to Director Olson and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The Department is an umbrella agency headed by Executive Director Carol K. Olson who was appointed by the Governor. The Department is organized into three major subdivisions consisting of Field Services, Program and Policy Management, and Managerial Support.

### Responses to LAFRC Audit Questions

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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#### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Department of Human Services in accordance with generally accepted accounting standards so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

#### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

#### *3. Was internal control adequate and functioning effectively?*

Other than our findings addressing the "computer access control weaknesses" (page 11); "lack of controls over drug inventory" (page 13); and "background checks for employees" (page 14); we determined internal control was adequate.

#### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

Other than our work addressing "foster care adoption improvements" (page 18) and "public assistance reporting information system implementation" (page 20) there were no indications of lack of efficiency in financial operations and management of the Department of Human Services.

#### *5. Has action been taken on findings and recommendations included in prior audit reports?*

The Department of Human Services has implemented the recommendations included in the prior audit report except the "computer access control weaknesses" (page 11); "lack of controls over drug inventory" (page 13); and "public assistance reporting information system implementation" (page 19)

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 22 of this report, along with management's response.

### **LAFRC AUDIT COMMUNICATIONS**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Department of Human Services financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Department of Human Services.

Also critical to the operation of the Department of Human Services are the following systems:

- Vision – An automated eligibility system, housing TANF, and the vast majority (85%-90%) of North Dakota's Medicaid eligibility information.
- Technical Eligibility Computer System (TECS)
- Vocational Rehabilitation Information System (VRIS)
- Regional Office Automation Project (ROAP)
- Medicaid Management Information System (MMIS)
- Fully Automated Child Support Enforcement System (FACSES)
- Low Income Heating Assistance Program (LIHEAP)
- Comprehensive Child Welfare Information and Payment System (CCWIPS)
- Child Care Assistance
- Automated Inventory Management System (AIMS)

## ***Background Information***

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**T**he mission of the North Dakota Department of Human Services is to provide quality, efficient, and effective human services, which improve the lives of people.

Services are provided to residents through direct services, and programs administered by the counties and through private providers who contract with the state. Direct services are provided by the eight regional Human Service Centers strategically located across the state of North Dakota, the North Dakota State Hospital in Jamestown, and the Developmental Center in Grafton.

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Department of Human Services includes:

- State Hospital.
- Developmental Center.
- 8 Human Service Centers.

The Human Service Centers provide a comprehensive array of outpatient clinical and community services including vocational rehabilitation, mental health services, developmental disabilities services, social services, addiction counseling, and emergency and outreach services. They also provide supervision and direction to county agencies delivering social services.

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The North Dakota Department of Human Services budget for the 2005-2007 biennium totals \$1.7 billion. This represents a 10% increase over the 2003-2005 budget. The state general funds comprise \$485 million of the 2005-2007 budget.

More information about the agency can be obtained from the Department of Human Services home page at:

<http://www.nd.gov/dhs/>

The agency regularly reports to the Budget Section, Budget Committee on Human Services, Budget Committee on Governmental Services, Budget Committee on Health Care, Information Technology Committee, and the Legislative Audit and Fiscal Review Committee.



# *Audit Objectives, Scope, And Methodology*

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## *Audit Objectives*

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The objectives of this audit of the Department of Human Services for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the Department of Human Services operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Department of Human Services and are they in compliance with these laws?
3. Are there areas of the Department of Human Services operations where we can help to improve efficiency or effectiveness?

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## *Audit Scope*

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This audit of the Department of Human Services for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

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## *Audit Methodology*

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- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures for expenditures and receipts.
- Tested samples of expenditures, journal vouchers; and correcting entries.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Observed the Department of Human Services processes and procedures.
- Reviewed applicable chapters of the North Dakota Century Code and 2005 and 2007 Session Laws.
- Visited the State Hospital, Developmental Center, and several Human Service Centers.
- Reviewed industry best practices through the use of Internet searches.
- Searched for recent studies or reports relating to the Department of Human Services.
- Conducted application reviews of high risk information systems.

## ***Discussion And Analysis***

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The accompanying financial statements have been prepared to present the Department of Human Services revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2007, operations of the Department of Human Services were primarily supported by federal funds. This is supplemented by appropriations from the state's general fund and fees credited to the agency's operating fund.

### ***FINANCIAL SUMMARY***

Significant assets of the Department of Human Services include approximately 3,000 acres of farmland surrounding the State Hospital and Developmental Center.

Revenues consisted primarily of federal funds, as well as treatment fees and revenue from local governments. Patient Care and Treatment revenue decreased due to a decrease in drug rebates due to the implementation of Medicare Part D in January 2006. Total revenues were \$551.9 million for the year ended June 30, 2007 as compared to \$550.6 million for the year ended June 30, 2006.

Total expenditures for the Department of Human Services were \$798.6 million for the year ended June 30, 2007 as compared to \$781.1 million for the prior year. The increase in total expenditures for the audited period reflects primarily additional IT costs associated with the Medicaid Systems Project incurred during fiscal year 2007. All other expenditures remained fairly constant.

Payments for grants, benefits, and claims accounted for approximately 80% of the total expenditures during the fiscal years reviewed. This is consistent with prior years.

# Financial Statements

## STATEMENT OF REVENUES AND EXPENDITURES

	June 30, 2007	June 30, 2006
<b><u>Revenues and Other Sources:</u></b>		
Revenue from Federal Government	\$528,505,718	\$518,327,114
Patient Care and Treatment Fees	12,162,304	21,952,247
Revenue from Local Government	8,238,874	7,813,647
Pharmacy Sales	1,008,979	542,825
Contributions and Private Grants	541,133	756,242
Other Revenue	897,153	1,151,183
Transfers In	551,832	59,696
<b>Total Revenues and Other Sources</b>	<b>\$551,905,993</b>	<b>\$550,602,955</b>
<b><u>Expenditures and Other Uses:</u></b>		
Grants, Benefits, and Claims	\$636,689,986	\$635,752,103
Salaries and Benefits	93,505,313	90,119,913
IT – DP/Services/Supplies/Equipment	24,911,384	14,017,705
Operating Fees and Service	19,423,608	18,782,289
Building Rentals	3,454,062	3,259,163
Medical, Dental, Optical	2,299,305	2,224,855
Fees – Professional Services	2,085,744	1,791,508
Travel	1,975,870	2,134,542
Repairs	1,839,046	1,467,676
Supplies	1,817,798	2,011,700
Utilities	1,799,474	1,848,808
Food and Clothing	1,730,229	1,219,965
Capital Payments	806,635	841,040
Postage	778,598	709,529
Printing	582,358	539,218
Professional Development	503,242	527,003
Other Expenses	713,687	213,084
Transfers Out	3,718,248	3,675,534
<b>Total Expenditures and Other Uses</b>	<b>\$798,634,587</b>	<b>\$781,135,635</b>

## STATEMENT OF APPROPRIATIONS

**For The Biennium Ended June 30, 2007**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 33,521,219	\$ 642,911	\$ 34,164,130	\$ 32,971,529	\$ 1,192,601
Operating Expenses	100,749,393	2,728,107	103,477,500	75,490,628	27,986,872
Capital Improvements	36,620		36,620	6,620	30,000
Construction Carryover		350,000	350,000	350,000	
Grants	332,838,450	(16,836)	332,821,614	301,047,498	31,774,116
HSC/Institutions	206,560,287	6,794,668	213,354,955	206,643,066	6,711,889
Grants-Medical Assistance	1,006,356,338	(10,165,350)	996,190,988	962,668,856	33,522,132
<b>Totals</b>	<u>\$ 1,680,062,307</u>	<u>\$ 333,500</u>	<u>\$ 1,680,395,807</u>	<u>\$ 1,579,178,197</u>	<u>\$ 101,217,610</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 484,421,474	\$ 333,500	\$ 484,754,974	\$ 479,121,025	\$ 5,633,949
Other Funds	1,195,640,833		1,195,640,833	1,100,057,172	95,583,661
<b>Totals</b>	<u>\$ 1,680,062,307</u>	<u>\$ 333,500</u>	<u>\$ 1,680,395,807</u>	<u>\$ 1,579,178,197</u>	<u>\$ 101,217,610</u>

### Appropriation Adjustments:

The \$350,000 transfer from the Construction Carryover line was unexpended in the 2003-2005 biennium and was approved by the Capital Construction Carryover Committee to be used for the State Hospital electrical distribution repair.

There was a \$16,500 decrease in the Operating Line related to House Bill 1465 of the 2005 Session which appropriated \$50,000 for implementing the Medical assistance and Medicare prescription drug management program. This bill was an emergency measure effective April 25, 2005, the amount that was spent during the 2003-2005 biennium needed to be reduced in the 2005-2007 biennium.

The Department of Human Services also transferred funds between various lines accordance with Senate Bill 1012 of the 2005 Session Laws – Section 6, which gave the Department of Human Services the authority to transfer amounts between appropriation lines without Emergency Commission approval. All other adjustments were done under this authority.

**Expenditures Without Appropriations Of Specific Amounts:**

Conference Fund has a continuing appropriation authorized by OMB policy 211 (\$18,990 of expenditures for this biennium).

Donor Implied Trust Fund (off PeopleSoft activity) had expenditures of \$57,522 for this biennium.

State Hospital Special Revenue Fund (off PeopleSoft activity) had expenditures of \$379,166 for this biennium.

Developmental Center Residents Welfare Fund (off PeopleSoft activity) had expenditures of \$86,962 for this biennium.

## *Internal Control*

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In our audit for the biennium period ended June 30, 2007, we identified the following areas of the Department of Human Services internal control as being the most important:

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### Internal Controls Subjected To Testing

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- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the other critical computer-based systems.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Department of Human Services operations or ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements. Reportable conditions are described below. We also noted other matters involving internal control that we have reported to management of the Department of Human Services in a management letter dated January 11, 2008.

### **COMPUTER ACCESS CONTROL WEAKNESSES**

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### Finding 07-1

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Access controls over various computer information systems are not adequate. Good internal controls, as documented in the Committee of Sponsoring Organizations (COSO) of the Treadway Commission's *Internal Control - Integrated Framework*, include limiting access to computer systems to only individuals that need access for their job duties. The following weaknesses were noted:

- Several programs were found to have individuals with improper access rights assigned.
- Several individuals were found with improper access to the PeopleSoft General Ledger and Accounts Payable module.
- Programmers at the State Hospital had access to the "live" AIMS system for programming changes, rather than a "test" system.

**Recommendation:**

We recommend the Department of Human Services correct the findings noted above, and procedures be improved to ensure access privileges grant the least access required for individuals to do their jobs.

***Department of Human Services Response:***

***The Department will continue to enhance procedures surrounding access to technology applications.***

### **LACK OF CONTROLS OVER DRUG INVENTORY**

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#### Finding 07-2

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At the State Hospital and Developmental Center, there is a lack of segregation of duties regarding the pharmacy inventory procedures, as the inventory is taken by the pharmacists that have custody of the stock throughout the year. Also, no one was monitoring adjustments made to the drug inventory during the year.

All 8 Human Service Centers (HSC) receive donated anti-depressants and anti-psychotic drugs from the various drug representatives during the year for use by HSC patients. Currently there are not adequate controls in place at all HSC's to safeguard the drug inventory and prevent unauthorized use.

Without adequate controls, it would be possible for individuals with access to drugs to remove drugs from the supply inventory for personal use or gain, without being detected.

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#### Audit Recommendation and Agency Response

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##### **Recommendation:**

We recommend the Department of Human Services strengthen controls over drug inventories at the Human Service Centers, State Hospital and Developmental Center.

##### **Department of Human Services Response:**

***The Department will implement procedures to strengthen controls surrounding the drug inventories at the State Hospital and the Developmental Center. However, the Department believes the controls surrounding drug inventories at the Human Service Centers are adequate. Appropriate physical controls are in place for all drug inventories and a perpetual inventory is maintained for all controlled substances. The Department concluded that maintaining a perpetual inventory for other types of donated sample medication was not cost effective.***



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Finding 07-3

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**BACKGROUND CHECKS FOR EMPLOYEES**

North Dakota Century Code section 12-60-24 allows for state and national background checks for several specific areas of state employees. However, it appears certain Department of Human Services employees are not covered under this law, including individuals responsible for patient care at the Developmental Center, State Hospital, and Human Service Centers.

Some of these individuals have had a North Dakota background check, but not a national background check. Any employee hired since 2001 will have a North Dakota background check done by the Bureau of Criminal Investigations. Also potential employees are required to provide previous employment and residence history. If a potential employee includes employment history or residence in a state other than North Dakota, the Department of Human Services will have a contractor run a background check for the other state or states.

However, if a potential employee was convicted of a crime in a neighboring state or excludes employment and residence history for a state they know they have a record; it is possible the Department of Human Services will not find out about certain aspects of a potential employee's background.

As a result, it is possible that the Department of Human Services could hire applicants for positions of trust over vulnerable people that could have done something in the past that should disqualify them from employment.

Based on the level of vulnerability of some people served by the Department of Human Services, it is imperative applicable employees are checked to ensure proper care and treatment of vulnerable people.

Other jobs within the Department of Human Services could also be found to necessitate national background checks if dealing with patients, sensitive information, or other possible reasons.

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Audit Recommendation and  
Agency Response

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**Recommendation:**

We recommend the Department of Human Services review employee job duties department-wide and determine which employees should be subject to a national background check, and take the actions needed to obtain the background checks as determined appropriate.

***Department of Human Services Response:***

***The Department has been proactive in performing background checks on potential employees. In addition to***

***the procedures noted above the Department also checks the federal and state sexual offender websites and the state's Child, Abuse and Neglect database for all potential employees. The Department did attempt to obtain national or FBI background checks on all potential employees, however, learned they can not be obtained unless authorized by state law. Therefore the Department will work with the Attorney General's Office in requesting the 2009 Legislative Assembly to consider an amendment to the current law which was passed by the 2007 legislative Assembly.***

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2007, we identified and tested Department of Human Services compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### *Legislative Intent Subjected To Testing*

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- Compliance with appropriation law (2005 Session Laws).
  - Agency appropriation (chapter 12, section 1).
  - \$615,000 from the general and federal fund for payment error rate measurement eligibility reviews for the medical assistance program (chapter 12, section 5).
  - Limit expenditures in the Community Health Trust Fund to \$254,356 (chapter 12, section 7).
  - Limit expenditures in the Permanent Oil Tax Trust Fund to \$3,667,820 (chapter 12, section 8).
  - Expenditures up to \$30,000 may be spent for paying petitioning costs for indigent individuals with developmental disabilities who have been referred for corporate guardianship (chapter 12, section 10).
- Compliance with cost limitations on specialized telecommunications equipment (NDCC 54-44.8-01(10)).
- Establishment and implementation of procedures to facilitate funding to nongovernmental entities that provide alternatives-to-abortion services (NDCC 50-06-26).
- Creation and coordination of a unified system for the provision of guardianship services to vulnerable adults who are ineligible for developmental disabilities case management services (NDCC 30.1-26,28,29).
- Establishment of a pilot project at the state hospital or private facility for treatment of individuals who are chemically dependent on methamphetamines or other controlled substances (2005 Session Laws, chapter 414).
- Development of a plan for the implementation of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (2005 Session Laws, chapter 416).
- Proper determination of the maximum return on investment for Developmental Disabilities Care Centers (2005 Session Laws, chapter 252).
- Compliance with a \$50,000 per child, per biennium limit for medical food and growth hormone treatment for children who have been diagnosed with Russell-Silver syndrome, (2005 Session Laws, chapter 417).
- Proper consideration of asset transfers as part of the Service Payments for the Elderly and Disabled (SPED) Program eligibility determination (NDCC 50-06.2-07).

- Proper suspension of drivers, professional, or recreational licenses for failure to comply with child support matters (NDCC 50-09-08.6).
- Establishment of a \$6 copayment for medical assistance recipients for each emergency room visit that is not designated an emergency service by the provider (2003 Session Laws, chapter 33).
- Implementation of a comprehensive community residential program for developmentally disabled children (NDCC 50-06-06.4).
- Development of a plan for an integrated, multidisciplinary continuum of services for chronically mentally ill (NDCC 50-06-06.5).
- Proper use of the following legally restricted funds:
  - 254 – Employment of People with Disabilities
  - 285 – Compulsive Gambling Prevention and Treatment
  - 315 – North Dakota Health Care Trust Fund
  - 419 – Children's Trust Fund
  - 432 – Permanent Oil Tax Trust Fund
  - 463 – Child Support Disbursement Unit
- Application of proper statutory rates relating to revenue.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Department of Human Services in a management letter dated January 11, 2008.

# Operations

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Our audit of the Department of Human Services identified the following areas of potential improvements to operations:

## **FOSTER CARE ADOPTION IMPROVEMENTS**

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### Operational Improvement 07-1

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#### **Challenge:**

Are there barriers to the foster care adoption process, as currently structured, in North Dakota?

We modeled our audit after the approach used in a nationwide study entitled “Listening to Parents: Overcoming Barriers to the Adoption of Children from Foster Care” sponsored by the Evan B. Donaldson Adoption Institute. We studied adoption policies, procedures, and practices; analyzed statistical data relating to adoptions; conducted focus study groups with both parents and workers; and reviewed case records of adoptive parents.

The Children and Family Services Division of the Department of Human Services (DHS) contracts with Catholic Charities North Dakota and PATH ND to run the Adults Adopting Special Kids (AASK) program throughout the state of North Dakota. The AASK program provides adoption services to children in the state foster care system. While many positive aspects to this process came forth during our audit process, we also uncovered some sources of frustration by both adoptive parents and adoption caseworkers.

The nationally recognized foster care adoption expert Jeff Katz, author of the study noted above, was hired as a consultant. He conducted the focus study groups which were held in the cities of Bismarck and Fargo. He issued a separate report, from which we have included his most significant barriers to foster care adoptions in North Dakota.

The following barriers were found within the foster care adoption process:

- There is too much paperwork as the questions are often redundant between various forms as well as between forms that have to be completed for both the foster care and adoption programs.
- Processing of fingerprints for prospective adoptive parents often has to be redone; and even if not redone the timeframe can take several months, as there are only two part-time people handling all the background check information.
- The adoption subsidy amounts are not viewed as being fair, consistent, or equitable since they vary by county.

- There are not enough state matching funds available to access additional federal dollars in order to provide post-adoption services.
- For financial reasons, at times parents need to transfer the legal custody of their adopted children to the state so their adopted children can receive intensive services, such as residential treatment.
- After transfer of legal custody, child support is assessed against the family. The Child Support Enforcement Unit follows the normal collection policies which could be a contributing factor in a family filing for bankruptcy.

In addition, there were other less critical (although still formidable) barriers to adoption that were mentioned in a separate letter to management. The separately issued report by Jeff Katz entitled "Adoption in North Dakota," is available by request or can be found at the following website:

[http://www.nd.gov/auditor/reports/FCA\\_07.pdf](http://www.nd.gov/auditor/reports/FCA_07.pdf)

This report goes into much greater detail on both the good and the bad points found within the adoption process for the state of North Dakota.

***Operational Improvement:***

We recommend the Department of Human Services work with their adoption partners to determine what steps can be taken to overcome the noted barriers to the adoption process.

***Department of Human Services Response:***

***The Department will enhance the adoption process where possible within federal and state regulations and legislative appropriations.***

## ***PUBLIC ASSISTANCE REPORTING INFORMATION SYSTEM IMPLEMENTATION***

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Operational  
Improvement 07-2

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### ***Background:***

The Public Assistance Reporting Information System (PARIS) is an information exchange system designed by the Administration for Children and Families to provide State Public Assistance Agencies with appropriate data as a result of a federal computer matching initiative.

The Department of Human Services could provide information on participants in Medical Assistance, Medicaid, Temporary Assistance to Needy Families (TANF), and Food Stamps to the federal government, who would then match these individuals against the Veterans Administration (VA), Department of Defense/Office of Personnel Management, and information provided from other states.

One purpose of the match is to identify individuals receiving Medicaid benefits that may also be eligible to receive VA benefits. The state costs are reduced when individuals receive benefits from the VA (100% federally funded), rather than Medicaid (state match).

Another purpose of this match is to identify individuals receiving active or retired federal or military pay to ensure individuals receiving these payments have properly reported them to the Department of Human Services.

The final purpose is to match individuals who may be receiving similar benefits in multiple states. For example, individuals receiving TANF benefits in both North Dakota and Minnesota would be identified and could be removed where applicable.

### ***Observation:***

Forty-two states have participated in the PARIS information exchange. Several of these states have reported a significant savings by participating in the program.

### ***Operational Improvement:***

We recommend the Department of Human Services implement the Public Assistance Reporting Information System.

### ***Department of Human Services Response:***

***The Department will continue to examine the effectiveness of PARIS and well as other information exchange systems that can be used to detect program violations.***

## ***Prior Recommendations Not Implemented***

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Prior recommendations have been implemented with the exception of the following:

### **Computer Access Control Weakness (Finding 05-1)**

We recommend the Department of Human Services correct the findings noted and procedures be improved to ensure access privileges grant the least access required for individuals to do their jobs.

#### **Status**

Not implemented – see page 11.

### **Lack of Controls over Drug Inventory (Finding 05-3)**

We recommend the Department of Human Services strengthen controls over drug inventories at the Human Service Centers and State Hospital.

#### **Status**

Not implemented – see page 13.

### **Public Assistance Reporting Information System Implementation (Operational Improvement 05-2)**

We recommend the Department of Human Services implement the Public Assistance Reporting Information System.

#### **Status**

Not implemented – see page 19.



## ***Management Letter (Informal Recommendations)***

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January 11, 2008

Carol Olson  
Executive Director  
Department of Human Services  
600 E. Boulevard Avenue  
Bismarck, ND 58505

Dear Executive Director Olson:

We have performed an audit of the Department of Human Services for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Human Services internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

### **CASH**

Informal Recommendation 07-1: We recommend the human service centers implement the same procedures for cash receipting/deposits/reconciliations used for the clearing accounts for the donation accounts. Also, the donation account should only be used for allowable purchases.

Informal Recommendation 07-2: We recommend the human service centers strengthen controls surrounding clearing account checks received.

## INVENTORY

Informal Recommendation 07-3: We recommend the State Hospital assign an appropriate individual the responsibility of monitoring all revenues and expenditures related to Gobbler and Commissary to limit the risk of fraudulent activity from going undetected.

## ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 07-4: We recommend the client strengthen controls over purchase card transactions. Purchase card holders should not be doing the final approval/redistribution.

Informal Recommendation 07-5: We recommend all correcting entries done in the general ledger be adequately supported.

## OPERATIONAL IMPROVEMENTS

Informal Recommendation 07-6: Child Support - We recommend support for debt adjustments be maintained.

Informal Recommendation 07-7: We recommend the Department of Human Services perform a review of custodial/maintenance employees at the State Hospital and Developmental Center to determine if it would be cost beneficial to contract out for these services, rather than have full-time staff, and ensure staffing levels are at a needed level.

Informal Recommendation 07-8: We recommend the Department of Human Services document their determination of the contractor/employee relationship.

Informal Recommendation 07-9: We recommend the State Hospital streamline payroll procedures for patients to reduce the amount of time spent on payroll. We feel paying patients monthly is sufficient, rather than bi-monthly.

### ***Department Response:***

***The State Hospital is a treatment facility for people with psychiatric and/or addiction problems where patients take part in a vocational training program to help prepare them for life outside the State Hospital. The licensed clinical staff at the State Hospital feel immediate reward for successful work is a very beneficial part of the patient treatment program, and believes it is in the best interest of the patients to be paid at least twice a month. Also a majority of the patients are only at the facility for a short period of time, and if paid only once per month they would be discharged before receiving payment for time worked.***

Informal Recommendation 07-10: We recommend that Children and Family Services work with their contracted adoption partners to determine what steps can be taken to overcome the following noted barriers to the adoption program: 1) too little follow-up to ensure that interested parents attend an initial inquiry meeting; 2) families who have previously adopted or are adopting a relative shouldn't have to go through the whole process again; 3) too many references are required and the questions asked are too personal for those being asked;

4) training classes get canceled because minimum numbers aren't met; or 5) training classes aren't held over the summer months.

Informal Recommendation 07-11: We recommend the human service centers implement a consistent process for tracking "lost revenues" in order to minimize their occurrence. As part of this process, the human service centers should be doing everything possible to ensure that all clients receive a Title XIX medical referral prior to receiving any Medicaid-eligible services. The ROAP system should allow client accounts to be flagged.

Management of Department of Human Services agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Kevin Scherbenske  
Auditor in-charge